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THE IMPACT OF HIGH GASOLINE PRICES IN SOUTH DAKOTA, 2001 - 2006

PREPARED FOR

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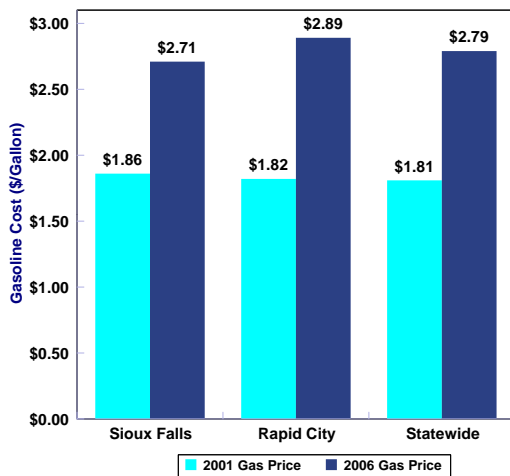
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EXECUTIVE SUMMARY

At the request of Rep. Stephanie Herseth, this report analyzes what has happened in South Dakota to the cost of one key energy source — gasoline — since 2001. It finds that:

South Dakota gasoline prices have risen rapidly. Average gasoline prices in South Dakota have increased for four straight years. Gasoline that cost \$1.81 per gallon in May 2001 costs \$2.79 per gallon this week. This price increase is over five times faster than the rate of inflation.



High gas prices are costing South Dakota drivers hundreds of millions of dollars. In 2006, South Dakota families will use an estimated 450 million gallons of gasoline — and will pay a total of \$522 million more for this gasoline than they would have paid in 2001. In the Sioux Falls area, high gas prices will cost drivers an extra \$51 million; in the Rapid City area, they will cost drivers an extra \$34 million.

The high prices will cost South Dakota families almost \$2,000. The average two-car family in South Dakota will pay \$1,860 more for gasoline this year than they would have paid in 2001. In the Sioux Falls area, the average family will pay \$1,430 more than in 2001; in the Rapid City area, the average family will pay \$1,530 extra.

Impact of Increased Gasoline Prices on South Dakota Families		
Region	Annual Aggregate Cost Increase	Annual Cost Increase Per Family
Rapid City	\$34 million	\$1,530
Sioux Falls	\$51 million	\$1,430
Statewide	\$522 million	\$1,860

PURPOSE AND METHODOLOGY

At the request of Rep. Herseth, who represents South Dakota in the U.S. House of Representatives, this report analyzes what has happened to gasoline prices in South Dakota over the last five years.

The report relies primarily on data and analysis published by the Oil Price Information Service (OPIS) and the U.S. Energy Information Administration (EIA). OPIS is a private firm that publishes daily information on gasoline prices in U.S. metropolitan regions. EIA is an independent agency of the U.S. Department of Energy that publishes annual information on gasoline prices and projections of future gasoline prices.

The report also uses data from the Federal Highway Administration that tracks fuel usage and driving patterns at the state and local level. This data is used to estimate total gasoline usage for the state and for its metropolitan area. Total changes in spending on gasoline are determined by multiplying the estimated change in gasoline prices between 2001 and 2006 by the estimated amount of gasoline that will be used in the state and its metropolitan areas.

FINDINGS

Gasoline Prices in South Dakota Have Increased Rapidly

Over the last five years, the price of gasoline in South Dakota has risen rapidly. In May 2001, gasoline prices in South Dakota were \$1.81 per gallon.¹

This week, the average price of gasoline in the state is \$2.79 per gallon, a near record.² This is 54% higher than gasoline prices five years ago. The increase in gasoline prices over the last five years has been five times higher than the core inflation rate, which increased by 10.7% over this same period.³

South Dakota's two major metropolitan areas — Sioux Falls and Rapid City — have seen similar price increases for gasoline. In Sioux Falls, gasoline prices have increased from \$1.86 to \$2.71, a 46% increase. In Rapid City, gasoline prices have increased from \$1.82 to \$2.89 per gallon since May 2001, a 59% increase.⁴ Figure 1.

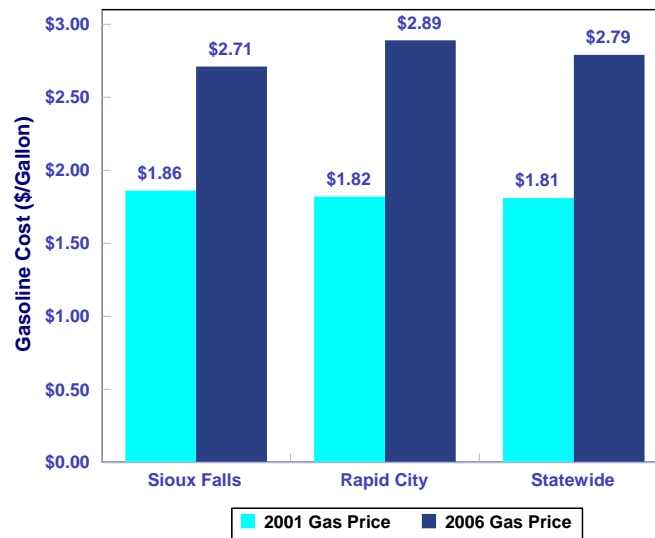
¹ *Id.*

² AAA, *Daily Fuel Gauge Report* (May 31, 2006) (online at www.fuelgaugereport.com)

³ Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers, All Items Less Food and Electricity* (May 2006).

⁴ AAA, *supra* note 2.

Figure 1: Gasoline Prices in South Dakota Have Increased Rapidly



South Dakota gasoline prices have now increased for four consecutive years. In May 2002, one year after President Bush announced his energy policy, gasoline cost an average of \$1.40 per gallon in the state. Average costs increased to \$1.53 in May 2003, \$1.98 in May 2004, \$2.13 in May 2005, and \$2.79 this week. Figure 2.

Figure 2: South Dakota Gasoline Prices Have Increased For Four Straight Years



High Gasoline Prices Will Cost South Dakota Drivers Millions of Dollars

The U.S. Energy Information Administration has predicted that gasoline prices will remain at or near record high levels through the summer, making 2006 the third consecutive year of record prices.⁵ Overall, EIA predicts that the nationwide average gasoline prices in 2006 will be \$2.62 per gallon, \$1.16 per gallon higher than prices in 2001. These cost increases will have a major financial impact on South Dakota families.

Statewide, South Dakota drivers will use an estimated 450 million gallons of gasoline in 2006.⁶ This gasoline will cost drivers \$43.5 million more per month than it would have cost five years ago. This represents an annual cost increase of \$522 million.

Approximately 10% of the gasoline used in South Dakota is used in the Sioux Falls area.⁷ If gasoline prices in the region are \$1.16 per gallon higher in 2006 than they were five years ago, increased gasoline prices will cost Sioux Falls drivers an additional \$4.2 million monthly compared to what they would have paid in 2001. Over the full year, the increased cost for Sioux Falls drivers would be \$51 million.

Approximately 7% of the gasoline used in South Dakota is used in the Rapid City area.⁸ If gasoline prices in the region are \$1.16 per gallon higher in 2006 than they were five years ago, increased gasoline prices will cost Rapid City drivers an additional \$2.9 million monthly compared to what they would have paid in 2001. Over the full year, the increased cost for Rapid City drivers would be \$34 million.

⁵ Energy Information Administration, *U.S. Energy Prices: Base Case* (May 2006).

⁶ The latest statewide data available from the Federal Highway Administration is for 2004. This data shows that drivers in South Dakota purchased 442 million gallons of gasoline in 2003. FHWA, *2004 Monthly Motor Fuel Use Reported by States* (Nov. 2004). According to the Energy Information Administration, gasoline use will increase by approximately 2% between 2004 and 2006. Energy Information Administration, *supra* note 15. A 2% increase in gasoline use in South Dakota would result in the state's drivers using 450 million gallons of gasoline in 2006.

⁷ The Federal Highway Administration estimates that 10% of all vehicle miles traveled in South Dakota are in the Sioux Falls area. Federal Highway Administration, *Highway Statistics, 2003* (2005).

⁸ The Federal Highway Administration estimates that 7% of all vehicle miles traveled in South Dakota are in the Rapid City area. Federal Highway Administration, *Highway Statistics, 2004* (2005).

High Gasoline Prices Will Cost Individual Families Thousands of Dollars

There are 560,000 drivers in South Dakota.⁹ On a per-driver basis, the increased gasoline prices will cost the average driver in the state approximately \$930 more this year than the average driver would have spent for the same quantity of gasoline five years ago. An average two-car family in the state will spend an additional \$1,860 on gasoline during 2006.

There are an estimated 98,000 drivers in Sioux Falls.¹⁰ On a per-driver basis, the increased gasoline prices will cost the average driver in the area approximately \$700 more in fuel costs this year than five years ago. An average two-car family in the region will spend an additional \$1,400 on gasoline this year.

There are an estimated 45,000 drivers in Rapid City.¹¹ On a per-driver basis, the increased gasoline prices will cost the average driver in the area approximately \$765 more in fuel costs this year than five years ago. An average two-car family in the region will spend an additional \$1,530 on gasoline during this year.

Table 1.

Table 1: Impact of Increased Gasoline Prices on South Dakota Families		
Region	Annual Aggregate Increased Cost	Annual Cost Increase Per Family
Rapid City	\$34 million	\$1,530
Sioux Falls	\$51 million	\$1,430
Statewide	\$522 million	\$1,860

⁹ Federal Highway Administration, *Highway Statistics, 2004* (2005).

¹⁰ Federal Highway Administration data show that there are 731 registered drivers for every 1,000 individuals in South Dakota. *Id.* Assuming this ratio applies to the population of the Sioux Falls area, which is 134,000, there would be 98,000 drivers in the Sioux Falls area.

¹¹ Federal Highway Administration data show that there are 731 registered drivers for every 1,000 individuals in South Dakota. *Id.* Assuming this ratio applies to the population of the Rapid City area, which is 61,000, there would be 45,000 drivers in the Rapid City area.

CONCLUSION

This analysis of gas prices in South Dakota finds that in the last five years, gasoline prices in the state have gone up by 58%, five times faster than the inflation rate. As a result of these rapid price increases, South Dakota families will pay over \$500 million more for gasoline this year than they would have in 2001. The average family in South Dakota will pay almost \$2,000 more for gasoline this year than five years ago.